7.0 FINANCIAL MANAGEMENT

The preparation and review of APDs encompass not only programmatic and technical issues, but also a host of financial management issues. The preparation of information system (IS) project budgets, the determination of costs allowable under Federal regulations, the allocation of those costs to the correct program, and the subsequent cost reporting, review, and reimbursement are all critical aspects of providing the financial resources necessary to carry out systems projects that meet FNS program objectives and requirements. One of the major purposes for submitting an APD is to secure Federal funding for systems development.

This chapter details the regulations, policies, and procedures that govern the financial management of IS projects. Because many practices are governed by program-specific regulations, there is a close relationship between financial management requirements and practices and the program-specific material contained in Chapter 3 and Chapter 4. Therefore, a State agency must be familiar with the program-specific IS requirements—especially as they relate to prior-approval thresholds, funding sources, and reimbursement rates—as a basis for understanding and using the financial management information presented in this chapter.

7.1. FEDERAL COST PRINCIPLES AND ADMINISTRATIVE REQUIREMENTS

Historically, many States have neglected to receive approval before incurring IS costs, such as procuring contractors for development, and maintenance and operations (M&O) activities. This error usually occurs because the States do not sufficiently understand the APD process and often think IS costs will be reimbursed as administrative costs. However, Federal regulations require that State agencies gain prior approval for any systems acquisition-related costs. By neglecting to follow the APD process to obtain prior funding approval, State agencies are at risk for not being reimbursed for any of these costs.

The Federal cost principles and administrative requirements form the basis for financial management of Federal grants. They apply to organizations that receive Federal funds either directly from the Federal government or passed through to an entity such as a local government, nonprofit organization, or educational institution. Figure 7-1 identifies the most significant regulations and policy that affect the financial management of FNS programs.

Figure 7-33. Regulations and Policy Governing Financial Management

Authority	Topic/Purpose
2 CFR Part 225 (OMB Circular A-87)	Cost Principles for State, Local and Indian Tribal Governments
7 CFR 3016	Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments
7 CFR 246.14(d)	Special Supplemental Food Program for Women, Infants and Children; Program Costs
7 CFR Part 277.18	SNAP ADP Equipment and Services; Conditions for Federal Financial Participation
OMB Circular A-21	Cost Principles for Educational Institutions
OMB Circular A-122	Cost Principles for Non-Profit Organizations
OMB Circular A–133	Audits of States, Local Governments, and Non-Profit Organizations

7.1.1. Direct Versus Indirect Costs

Direct costs can be specifically identified to the benefiting program with a particular cost objective—such as a grant, contract, project, functions, or activities—whereas indirect costs are not readily identifiable with the aforementioned, but are necessary to the general operation of the grantee and the activities it performs (e.g., costs incurred in operating and maintaining buildings and equipment, administrative salaries etc).

To be reimbursed for IS acquisition costs, State agencies must apply the cost principles when preparing APDs and, specifically, must demonstrate that their projected direct and indirect costs are allowable, reasonable, and allocable under 2 CFR 225 (OMB Circular A-87) (http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225_main_02.tpl).

7.1.2. Allowable Costs

In accordance with 2 CFR 225 (OMB Circular A-87) http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225_main_02.tpl), Federal cost principles require the prior approval of costs for the acquisition of IS equipment and services used for the administration of Federal grant programs. State agencies frequently encounter problems, because they neglect to separate out IS-related costs, including M&O, and begin incurring these types of costs without prior approval from FNS. As a result, when State agencies later try to claim these costs as an administrative expense, they usually are denied reimbursement.

FNS uses the projected costs and any associated procurement documents to assess whether or not the costs associated with the project are allowable. If the submission of an APD is not required on the basis of the program's thresholds and conditions, then the State agency must demonstrate to FNS the approval of State plans and associated budgets and/or specific grant agreements.

Subject to program, grant, and prior approval conditions, costs are allowable and can be charged to FNS grants if they are—

- Necessary, reasonable, and allocable to the grant program
- Compliant with any limitations or conditions of program regulations or grant conditions
- Allocated to the grant on a basis consistent with policies applicable to all activities of the grantee
- Accounted for consistently and in accordance with generally accepted accounting principles
- Not allocated to or included in the cost in any other Federally-funded program.

Supplemental Nutrition Assistance Program

For SNAP, approval is required if total Federal and State costs exceed $6 million in total project costs. In addition, prior approval is necessary for procurement documents (i.e., requests for proposals (RFP) and contracts) for IS acquisitions exceeding $6million for competitive procurements and exceeding $1 million for noncompetitive procurements in total Federal and State costs.

Federal grant management policies require that for entitlement programs (e.g., SNAP), prior approval for noncompetitive procurement of IS services or equipment is required only for acquisitions exceeding $1 million in total costs, to be reimbursed at the regular 50 percent reimbursement rate, consistent with 7 CFR 277.18(c)(1) (hhttp://www.ecfr.gov/cgi-bin/text-idx?SID=61958349b5909e9586190b85ab9dd0d2&node=20140102y1.13) of the regulations. **Costs charged to FNS programs that should have been submitted to and approved by FNS are subject to disallowance.** As a general practice, FNS does not provide for retroactive approval of funds, except in extreme circumstances in which mitigating factors did not allow a State agency to obtain prior approval. Poor planning does not constitute a reason for retroactive approval.

Contract amendments that do not cumulatively exceed 20 percent of the base contract cost do not require FNS prior approval as long as the contract was competitively procured. This may mean, for example, that the first amendment for 15 percent would not be subject to approval but that a subsequent amendment for 6 percent would be. When a project crosses the 20 percent threshold, FNS may at its discretion review the entire scope of the changes but would not disallow costs that were not subject to approval. Contract amendments that cumulatively exceed 20 percent of the base contract must be submitted for FNS prior approval. Base contract means the initial contractual activity for a defined period of time. The base contract includes option years but does not include amendments. FNS may require States to submit contract amendments that are under the threshold amount on an exception basis, if the contract amendment is not adequately described and justified in an APD.

Special Supplemental Nutrition Program for Women, Infants, and Children

For WIC, specific prior approval of IS services and equipment acquisitions is required when the total anticipated project costs are equal to or greater than $100,000.
Contract amendments that do not cumulatively exceed 20 percent of the base contract cost do not require FNS prior approval as long as the contract was competitively procured. This may mean, for example, that the first amendment for 15 percent would not be subject to approval but that a subsequent amendment for 6 percent would be. When a project crosses the 20 percent threshold, FNS may at its discretion review the entire scope of the changes but would not disallow costs that were not subject to approval. Contract amendments that cumulatively exceed 20 percent of the base contract must be submitted for FNS prior approval. (FNS may make exceptions to this requirement on a case-by-case basis.) Base contract means the initial contractual activity for a defined period of time. The base contract includes option years but does not include amendments. States may be required to submit contract amendments that are under the threshold amount on an exception basis, if the contract amendment is not adequately described and justified in an APD.

7.1.3. Necessary and Reasonable Costs

The first general test of allowability is that the cost be necessary and reasonable for proper and efficient performance and administration of Federal awards. A cost is *reasonable* if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration should be given to the following:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award
- The restraints or requirements imposed by such factors as sound business practices; arms-length bargaining; Federal, State, and other laws and regulations; and Federal award terms and conditions
- Market prices for comparable goods or services
- Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government
- Whether significant deviations from the established practices of the governmental unit unjustifiably cause increases in the Federal award's cost.

When reviewing the total proposed project, FNS will closely examine the reasonableness of specific components of the project, such as the State's choice of hardware equipment. On the basis of judgments about the necessity and reasonableness of the technical approach and its costs, specific costs may be disapproved. If disapproved, these judgments must be clearly documented, and justification must be provided to the State agency.

7.1.4. Unallowable Costs

A cost disallowance is made by FNS when a program grantee claimed more funds against FNS grants than was entitled or claimed funds for unallowable or inappropriate items. Inappropriate charges may result from exceeding approved budget levels, including charges for unallowable or unapproved costs or for unapproved procurements.

Specific cost items or categories normally are not approved separately by FNS. While individual cost categories within a budget are typically allowed, specific items of costs may be disapproved (at the point of submission) or disallowed (subsequent to their being incurred). Retroactive costs are disapproved or disallowed.

A determination of cost disallowance represents a debt due to the Federal Government. FNS will record the value of cost disallowances as accounts receivable and pursue recovery of disallowed funds consistent with the procedures of FNS Instruction 420-1, Managing Agency Debits, or the appropriate policy. Cost disallowances may occur as a result of: charging unallowable costs to the Federal grant; charging costs to the Federal grant without prior FNS approval or inconsistently with the grant award (i.e., time period and purpose); charging costs to the Federal grant in excess of acceptable documentation of costs incurred, approved funding levels, or the rates of the State agency's approved cost allocation plan; or charging costs in violation of grant conditions or other restrictions placed on the reimbursement of charges by FNS.

For a complete list of unallowable costs, please refer to 2 CFR 225 (OMB Circular A-87) (http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225_main_02.tpl). Examples of costs that cannot be charged to FNS grants include the following:

- Bad debts
- Contingencies representing contributions to a reserve fund
- Contributions and donations made by the organization
- Entertainment expenses, fines, and penalties
- Alcoholic beverages
- Fines and penalties
- Fund-raising
- General government expenses, such as Governor's office expenditures
- Investment management
- Legal expenses for prosecution of claims against the Federal government
- Lobbying
- Under-recovery of costs under Federal agreements
- Indemnification costs to indemnify the State agency against liabilities to third parties and other losses not compensated by insurance
- Costs for proprietary software applications developed specifically for the SNAP
- Value of contributions or services donated by nonpublic entities.

7.1.5. Processing Cost Disallowances

FNS will notify the State agency of the amount and reasons for the cost disallowance and pursue recovery of the disallowed funds consistent with FNS Instruction 420-1, or the appropriate policy. If through review, audit, or other means, FNS determines that costs that are shared with other Federal programs should be disallowed, notice should be provided to the RO of the Federal programs involved and to the appropriate office of the Department of Health and Human Services (HHS) Division of Cost Allocation (DCA). FNS also will notify the appropriate office of the HHS DCA if it determines that the State failed to comply with an approved cost allocation plan. In such cases, FNS will coordinate with the appropriate DCA office before proceeding with a cost disallowance.

7.1.6. Allocable Costs

A cost is *allocable* to a particular cost objective, if the goods or services involved can be charged or assigned to that cost objective according to the relative benefits received. All activities that benefit from the State agency's indirect costs, including unallowable activities and services donated to the State by third parties, will receive an appropriate allocation of indirect costs.

Any cost allocable to a particular Federal award or cost objective under the principles in 2 CFR 225 (OMB Circular A-87) (http://www.whitehouse.gov/omb/fedreg/2005/083105_a87.pdf) may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards or for other reasons. Such a practice constitutes unallowable cost shifting. However, this prohibition does not preclude State agencies from charging costs that are allowable and allocable under two or more awards, pursuant to existing program agreements. Such charges are viewed as funding allocations rather than as cost allocations.

For cases in which an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan or indirect cost rate agreement will be required, as described in Attachments C, D, and E to OMB Circular A–87 (http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225_main_02.tpl)

7.1.7. Developmental Versus Operational Costs

There comes a point in all successful projects when the development phase ends and the M&O phase begins as part of the SDLC. This change in phases is particularly important in the APD process. The costs for each phase are budgeted and reported differently and require different cost allocation plans. In addition, funding may come from different sources. The change from developmental to operational occurs on the first day of the Federal Fiscal quarter following when development has been completed, accepted, and implemented by the State agency. This may occur all at once or in a phased rollout of the system until it is implemented statewide. Regardless, once the change occurs from development to M&O, project costs are accounted for differently. For an SNAP project, actual expenditures are reported as operational costs in a different column on the Form SF-269, Financial Status Report (http://www.whitehouse.gov/omb/grants/sf269.pdf) (through FY 2011) or on the Form SF-425, Federal Financial Report (http://www.whitehouse.gov/sites/default/files/omb/assets/grants_forms/SF-425.pdf) (beginning FY 2012). For a WIC project, actual expenditures are no longer charged against the project grant but are charged against the State agency's Nutrition Services and Administration (NSA) grant.

7.2. COMMON COST ITEMS FOR INFORMATION SYSTEMS PROJECTS

2 CFR 225 (OMB Circular A-87) (http://www.whitehouse.gov/omb/fedreg/2005/083105_a87.pdf) lists selected items of cost that are common to performing and administering Federal awards to State agencies. These items should be accounted for in the State agency's plan and budget. This section identifies some of these costs, Attachment B of the Circular provides additional cost items and policy that are helpful in making cost determinations.

7.2.1. Compensation for Personnel Services (Staff Costs)

Staff not assigned full time to the project must be able to determine and document the time and effort they spend. Any staff who work more than 10 percent of their time in any given fiscal year or quarter on the project must document their time with appropriate time distribution reports. A precise assessment of factors that contribute to costs is not always feasible. Therefore, reliance is placed on estimates in which a degree of tolerance is appropriate, with consideration to time and effort reporting.

It is important to consider staff time as a cost for the project and to be able to determine the amount of staff salaries and benefits to be spent on the development and implementation of the new system. States often forget to anticipate the time and commitment placed on existing staff resources for this effort, including travel costs for State and local staff to attend meetings, training, and so forth. State staff members may serve as part of an advisory committee, be involved in development sessions, or be asked to serve on review panels, design modules, and testing scenarios, and so forth. Staff costs should be captured by determining salary and benefit costs by quarter for each position. For positions that will not be spending 100 percent of their time on this project, the State will need to determine the percentage of time each of these positions will spend on the system development and implementation, so that the cost can be calculated. This determination can be made by using random moment time studies or time sheets for staff who may work across different programs. However, staff spending less than 10 percent of their time in a given quarter need not be included. Depending upon the development stage of the system, the percentage of time will likely change from quarter to quarter, State staff that spends 100 percent of their time on a project is required to have their time certified semi-annually.

WIC

Staff salaries and benefits must be identified in the budget submission to reflect an accurate projection of the total cost of the project regardless of the funding source. For WIC, the funding source (i.e., NSA) should be identified if different from that of the project itself.

7.2.2. Outside Contractor Professional Services

If a State intends to enter into one or more contracts for professional services, it must include all the costs for the services to be performed—including system design, development, testing, pilot, data conversion, staff training, deployment or rollout Statewide, Quality Assurance (QA) services, Independent Validation and Verification (IV&V)—and travel costs for the contractor.

7.2.3. Internal/State IT Professional Services

If a State intends to have services provided by one or more departmental or other State agency information technology (IT) group(s), it must include the costs for the services to be performed—including system design, development, testing, pilot, data conversion, staff training, deployment or rollout Statewide, QA services, IV&V—and travel costs for the other departmental or State agency IT personnel. Program staff activities should not be included here.

7.2.4. Documentation/Materials

A well-planned IS requires considerable documentation. Often, this material is prepared by contractors who are developing and implementing the system. However, this documentation may also be prepared in-house by IT staff or occasionally by program staff. The cost of developing this documentation and material should be captured. If the cost is already reflected in another category (i.e., State staff time or contractor services) do not include it again. Include the cost for training manuals, other written training materials, audio/visual or online training materials, user manuals, help desk manuals, data dictionary, annotated code, other system documents that you require, hardware inventory, software inventory, disaster plan, etc. Each of these costs should be separately identified.

7.2.5. Telecommunications

Telecommunication costs are the costs to transmit data between sites. These costs would be charged by local or long distance telephone providers, Internet service providers, or other telecommunications providers. Quarterly costs should be recorded.

7.2.6. Equipment and Other Capital Expenditures

Standard Federal grant policy, which is based on OMB Circular A-87, requires the cost of capital expenditures, including equipment, site preparation, and other capital improvements, to be recovered by the grantee through depreciation or use allowances. When converting from use allowance to depreciation, the balance to be depreciated will be computed using a pro forma depreciation schedule starting with the date of acquisition. Depreciation schedules must be reviewed and approved. Normally, Internal Revenue Service (IRS) standards are used; however, State agencies may propose alternatives based on useful life. Once equipment is fully depreciated, no further charges may be made to FNS. Equipment with a unit cost of $5,000 or less can be expensed in the year of purchase. State agencies that wish to expense equipment(charging the cost in a lump sum), rather than depreciate its cost, must obtain prior approval from FNS via a waiver of depreciation before taking such action. Likewise, capital expenditures may only be allowed as a direct cost with prior approval.

The costs of IS equipment having total aggregate acquisition costs in excess of $25,000 for SNAP, and in any amount for WIC, will be charged to FNS programs through interest, depreciation schedule, or use allowance. Interest is allowable for costs that are charged through a depreciation schedule. Therefore, the total cost, including the acquisition cost and interest, must be charged through a depreciation schedule, unless a waiver of depreciation is granted by the funding agencies. (See the Section 7.2.7 for further details.)

Software Costs

Most new computer systems and transfers involve some custom code. Other costs in this category may include license fees for items such as server licenses, commercial off-the-shelf (COTS) software, security and network software, and operating system (OS) software.

Hardware Costs

Include all the hardware for this effort, including laptops, desktops, modems, printers for offices as well as food instruments, servers, monitors, uninterrupted power supplies, network equipment (hubs, routers, etc.), and the location where the hardware will be used, price per unit, and number of units to be purchased.

Site Preparation Costs

New computer systems often require considerable changes to program operations. Sites often require wiring for electricity and telecommunications and also computer cabling for local area networks. Another common cost is improved site security. Include any other costs incurred in the preparation of the site for the new system.

7.2.7. Waivers of Depreciation

A waiver of depreciation is a waiver of the need to depreciate the cost of equipment purchases over the expected life of the equipment for the purposes of APD budgeting. There are times when it is more beneficial to expense or pay upfront the full price of the equipment. FNS may occasionally allow expensing of capital expenditures and grant a waiver of depreciation. Waivers of depreciation are normally granted only if it is cost-beneficial to FNS. A waiver of depreciation is a written request to change the method of accounting and claiming for the cost of equipment. The Federal cost circulars require that individual items of equipment that cost more than $5,000 per item must be charged over the useful life of the equipment. (Useful life is as proscribed by the IRS. Workstations have a useful life of 3 years, while mainframes are normally charged over a period of 7 years.) The written request asks for agency permission to charge the entire cost of the equipment acquisition at the time of acquisition (more commonly known as "expensing"). Unless agency permission is received, the equipment cost must be based on depreciation over the life of the equipment. Because of the nature of WIC project funding, it is very common for WIC State agencies to request a waiver of depreciation for equipment purchases.

In evaluating a request for a waiver of depreciation, FNS will examine the following criteria:

- Documentation from the State agency justifies that expensing costs in the period acquired would be more cost beneficial to the Federal Government than depreciating the costs.

- Sufficient funds exist within the current-year Federal appropriation to allow expensing of costs within the period of acquisition.
- Approval of the waiver of depreciation is consistent among the Federal funding agencies (although different funding constraints may result in differences).

If sufficient criteria are met and if the equipment acquisition is part of an APD, any request for waiver of depreciation, interest, or use allowance as cost-charging methods must be submitted as part of the Implementation APD (IAPD). For acquisitions in which an APD is not required, the State must submit those waiver requests to FNS with sufficient explanation for the criteria listed above.

A State may request a waiver of depreciation for the following reasons:

- **The State does not have enough money to fully commit upfront**. If the State intends to buy all of the hardware at one time for implementation, it must request a waiver of the normal requirement to depreciate hardware costs over the reasonable life expectancy of the equipment. If the State does not request a waiver of depreciation, it is saying that the State will buy all the hardware up front and only charge the cost to FNS over the number of years that the value of the hardware depreciates. However, many States do not have enough funding and will need to request a waiver of depreciation.

- **Transitional upgrades are avoided**. If a State does not request a waiver of depreciation and it cannot front the money for the full initial purchase, then hardware may have to be purchased over several years. Although a constant cycle of partial replacement is the norm when a system is fully operational, not being able to buy all the hardware at once for a new system might mean having to use much older hardware at the time of implementation. That may involve complicated hardware upgrades to old equipment to try to meet the need until it can be replaced over time.

- **Compatibility and maintenance issues exist.** An ongoing cycle of hardware replacement during the life of a system is normal. However, it is possible that if initial hardware for a new system has to be purchased over time, there may be issues of compatibility, as specifications change.

7.2.8. Interest

Interest is allowable on equipment acquired before or after the effective date of the May 4, 1995, revision to 2 CFR 225 (OMB Circular A-87) (http://www.whitehouse.gov/omb/fedreg/2005/083105_a87.pdf), subject to the following conditions:

- Interest earned on borrowed funds pending payment of the acquisition costs is used to offset the current period's cost or the capitalized interest, as appropriate. Earnings subject to reporting to the Federal IRS under arbitrage requirements may be excluded.
- √ Governmental units will negotiate the amount of allowable interest whenever payments (e.g., interest, depreciation, use allowances, and contributions) exceed the governmental unit's cash payments and other contributions attributable to that portion of real property used for Federal awards.

However, for existing debt, only interest expense incurred/paid in the Government's fiscal year beginning on or after September 1, 1995, is allowable. Retroactive claims for interest paid in prior periods are unallowable. The Circular also requires, for facilities, that earnings on construction borrowings be offset against income expense. For cases in which depreciation and interest expense exceed principal and interest payments (positive cash flow), the State agency is required to negotiate the amount of allowable interest with the cognizant agency (i.e., HHS or the Bureau of Indian Affairs).

7.3. COST ALLOCATION

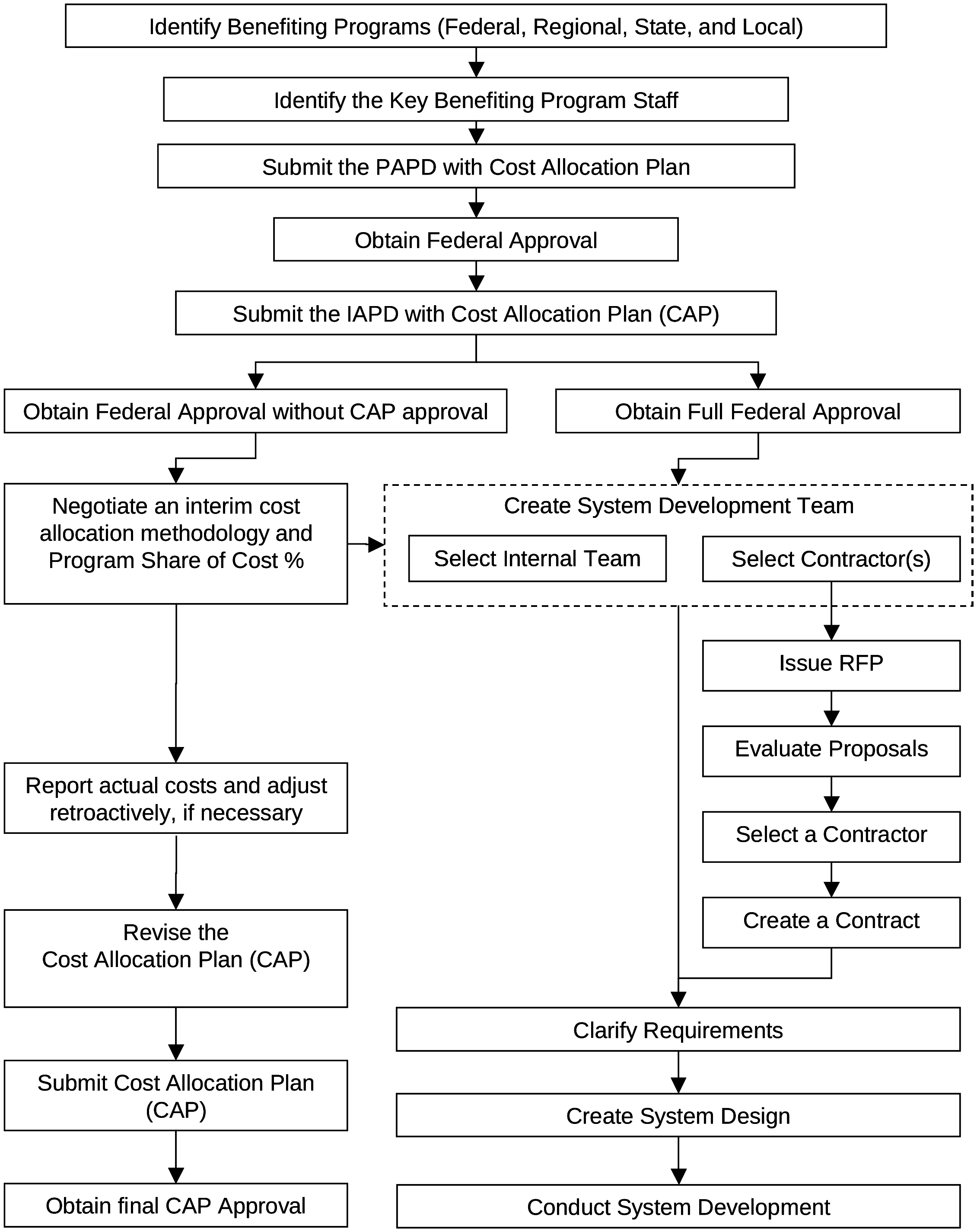
Cost allocation is a procedure that State agencies use to identify, measure, and equitably distribute costs for systems among the various agencies that will use, and benefit from, the system. State agencies almost universally use IS to administer multiple Federal and State public assistance programs, including SNAP, WIC, Medicaid, Temporary Assistance for Needy Families (TANF), child care, child support enforcement, child welfare programs, and refugee assistance programs. Federal funding is available to help State agencies plan, develop, maintain, operate, and update the IS that they use to administer Federal public assistance programs.

Increasingly, as new technologies and new approaches, such as enterprise architecture, have become available, the States are integrating their systems to administer several Federal and State programs simultaneously. Equitable cost sharing is very important, because system integration and modernization costs are substantial; software development is usually the single largest cost item at more than 50 percent of total system costs. Cost allocation requires the identification of two types of costs—direct costs (i.e., costs for system functions or activities benefiting only one State or Federal program) and shared costs (i.e., costs for system functions or activities that benefit two or more State or Federal programs).

It is the policy of FNS that the costs of integrated IS be shared equitably by all users of these systems. Costs incurred in the development of systems are shared differently from those incurred in operations. Therefore, benefiting agencies retain the authority to approve cost allocation methods for development; whereas the cognizant Federal agency that reviews Public Assistance Cost Allocation Plans for State agencies reviews only operational cost allocation plans.

Federal agencies use the APD process to receive and approve State agency requests for Federal financial participation (FFP) for systems with anticipated total project costs (both Federal and State funds) of $6,000,000 or more for SNAP or $100,000 or more for WIC. As part of the APD process, State agencies are required to submit cost allocation information, beginning with State agency system planning and continuing through system development and operations (see Figure 7-2).

Figure 7-34. Cost Allocation for Systems Planning and Development



7.3.1. Division of Cost Allocation (DCA)

The HHS is designated by OMB as the cognizant Federal agency for reviewing and negotiating facility and administrative (indirect) cost rates, fringe benefit rates, special rates as determined to be appropriate, research patient care rates, and statewide cost allocation plans and public assistance cost allocation plans for operational costs. These indirect cost rates and cost allocation plans are used by grantee institutions to charge Federal programs for administrative and facility costs associated with conducting Federal programs. The DCA resolves audits that involve indirect costs, cost allocation issues, and cost allocation methodologies. The DCA also provides technical assistance and guidance to both Federal departments and agencies and the grantee community. The DCA provides indirect cost rate and cost allocation plan negotiation services to Federal departments and agencies for which HHS is designated by OMB as the cognizant Federal agency. The DCA represents the Federal Government during negotiations and has a fiduciary responsibility to protect the public funds and to communicate and negotiate with the grantee community.

It should be noted that the Bureau of Indian Affairs is the cognizant agency for indirect costs and cost allocation plans for the Indian Tribal Organizations.

Allocation of system development costs was assigned to the funding agencies in 1986. All participating Federal agencies must approve cost allocation plans for development costs. HHS is the cognizant agency for approval of **operational** cost allocation plans only.

7.3.2. Cost Allocation Stakeholders

States have learned that building an effective cost allocation planning team is a critical success factor in preparing and gaining approval of cost allocation plans. It is imperative that the State agency create its cost allocation team early in the system planning process for systems that support more than one Federal program. This team should be cross-functional and include representatives from program, technical, and financial management staff. Depending on the business environment, contractor staff may also need to be included. Benefiting Federal and State program staff that need to be included in the cost allocation process include the following:

- FNS program and financial management staff, typically located in a Regional Office (RO) or FNS headquarters
- State program staff
- System (IT) staff
- State Program staff (SNAP, WIC, TANF, Medicaid, etc., as well as State public assistance programs using the system)
- State financial management and accounting staff
- Contractors (if applicable).

At the outset, the State agency cost allocation team should establish communication with Federal benefiting program representatives. The State team can describe the cost allocation methodology it is considering and get helpful feedback from its Federal benefiting program representatives. The earlier in the cost allocation process the State and Federal representatives begin working together, the more likely there will be no surprises when the cost allocation plan is submitted for approval.

7.3.3. Cost Allocation Plan

Most governmental units provide certain services—such as motor pools, computer centers, purchasing, and accounting—to operating agencies on a centralized basis. Because Federally-supported awards are performed in the individual operating agencies, there must be a process through which these central service costs can be reasonably and consistently identified and aligned to the appropriate activities. The Central Service Cost Allocation Plan (CSCAP) provides that process, and therefore all State agencies must submit statewide Cost Allocation Plans to the HHS.

A cost allocation plan is the document that State agencies submit to Federal benefiting programs for approval during the APD process to obtain Federal funding for a portion of State system costs. The cost allocation plan documents the State agency's methodology for cost allocation and shows the proposed benefiting programs' share of cost (%) and dollar ($) share amount. Each Federal benefiting program must approve the State agency's cost allocation plan. Because of the special nature of the cost allocation plans for IS, agreement is reached by the various agencies for which the system is being developed. Operational cost allocation plans are reviewed and approved, in consultation with the participating agencies, by the cognizant agency (i.e., HHS DCA or Bureau of Indian Affairs).

CSCAPs must include all central service costs that will be claimed, whether as a billed or an allocated cost, under Federal awards. Costs of central services omitted from the plan will not be reimbursed. Plans must also include a projection of the next years allocated central services cost. This projection should be based on either actual cost for the most recently completed year or on the budget projection for the coming year. Plans must also include a reconciliation of actual allocated central services costs to the estimated costs used for either the most recently completed year or for the preceding year the most recently completed year.

7.3.4. Cost Allocation Methodologies Toolkit

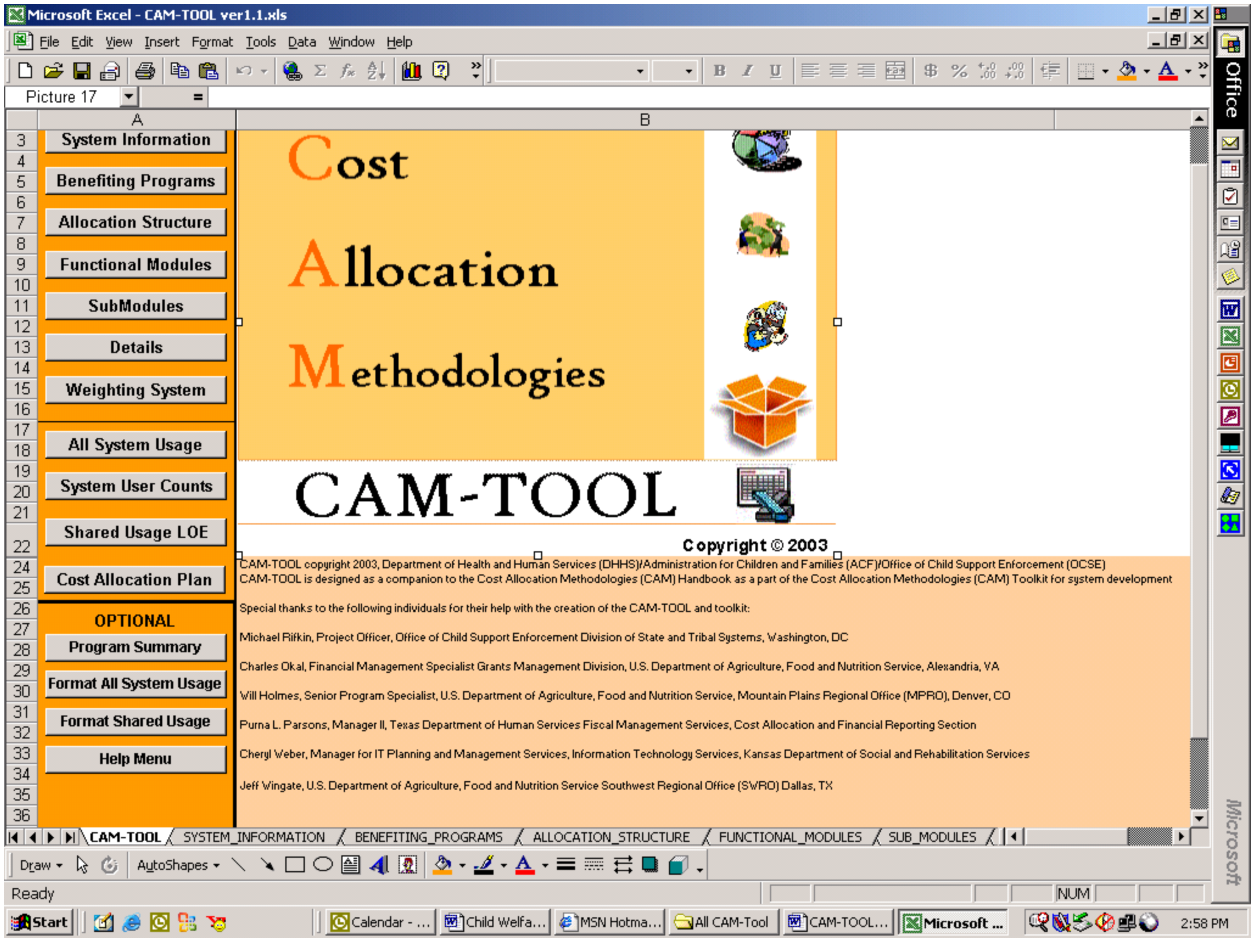
The Cost Allocation Methodologies (CAM) Toolkit was made available to Federal, State, and local agencies through collaboration among the HHS Administration for Children and Families (ACF) and Office of Child Support Enforcement (OCSE); FNS; and representatives from the States of Kansas and Texas. Its purpose is to model a simple, consistent, and objective cost allocation methodology for assisting States in determining equitable distributions of software development costs, to help expedite the Federal approval process, to offer a training tool for new staff, and to provide a valuable resource during the planning phase of the Systems Development Life Cycle (SDLC). The CAM Toolkit is accessible on the FNS web site at: http://www.fns.usda.gov/apd/cam-toolkit.

This toolkit is designed for use by those staff typically responsible for cost allocation planning and implementation for State IS supporting Federal and State public assistance programs, including the following:

- National office (Federal) financial staff that review and approve State cost allocation plans
- RO staff (Federal) who review State cost allocation plans
- State and local agency financial and IT staff that help prepare cost allocation plans based on system development needs
- Contractors who provide data to support State cost allocation methodologies.

Figure 7-3 displays the CAM-Tool Splash Screen with its navigation menu, which indicates all of the standard worksheets needed to develop an approvable cost allocation plan.

Figure 7-35. CAM-Tool Splash Screen



The Toolkit includes the following:

- √ **CAM Handbook** (MS Word)—The CAM Handbook presents a comprehensive introduction to cost allocation. It contains practical guidance on preparing cost allocation plans throughout the system life cycle in conjunction with the Federal APD process.

- √ **CAM-Tool** (MS Excel)—This MS Excel tool provides a consistent, objective cost allocation process for identifying all Federal and State benefiting programs and calculating an equitable distribution of software development costs among those benefiting programs. A series of worksheets walks the user through the cost allocation process. The CAM-Tool is designed for intermediate MS Excel users.

- √ **CAM-Tool User Guide** (MS Word)—This user guide supplements the on-screen help available in the CAM-Tool itself. It contains step-by-step procedures and screen displays to illustrate how to capture and analyze the data needed to produce equitable distributions of software development costs to Federal and State benefiting programs. The toolkit provides a standard process for State agencies to document system and allocation information, identify all benefiting programs, identify direct and shared costs by program, and prepare the cost allocation plan for submission and approval. The CAM Toolkit is accessible on the FNS web site at: http://www.fns.usda.gov/apd/cam-toolkit.

7.3.5. Indirect Cost Proposals

An indirect cost rate proposal is prepared by a governmental department or agency to provide necessary documentation to substantiate its request for an indirect cost rate used to charge indirect costs against a Federal award. Indirect costs include costs originating in the department or agency carrying out the Federal awards and costs of governmental central services distributed through the CSCAP that are not otherwise treated as direct costs. The basic steps for a simplified indirect cost rate plan are to adjust the total costs by eliminating any unallowable costs or capital expenditures, classifying the remaining costs as direct or indirect, and computing the rate (divide the total indirect by the direct base). The direct base selected for distribution of the indirect costs may be the total grants or revenues received by the grantee or some other measure (e.g., salaries or full-time equivalents).

The cognizant Federal agency will: review the proposal for completeness, reliability, and accuracy; review prior negotiation and audit experience; assess the governmental unit's financial condition; determine the extent to which coordination with other awarding agencies is necessary; determine if it includes all activities and costs of the governmental entity; determine if allocation methods and billing mechanisms are appropriate and properly designed; and assess what the appropriate rate base (salaries and wages, modified total direct cost, etc.) should be for the resulting indirect cost rate and the extent to which any rate established should be subsequently adjusted.

When an Indirect Cost Proposal is approved, it results in an Indirect Cost Rate Agreement (ICRA). FNS Regional Financial Management staff verify that these agreements exist when they perform Financial Management reviews of State agencies.

7.4. COST REVIEWS AND AUDITS

Audit of Federal awards is an aid in determining whether financial information is accurate and whether an award recipient has complied with terms and conditions that could have an effect on claims for costs incurred under the award. Under the Inspector General Act of 1978 (http://www.ignet.gov/pande/leg/igactasof1010.pdf), as amended, the inspector general of a Federal agency may audit or investigate any program, function, or activity administered by that agency. This potential for review extends to those organizations (including State, local, and Indian tribal governments) that are performing under awards made by the Federal agency. However, as a way to ensure the best use of audit resources, the Act requires the inspectors general to determine the extent to which they can rely on audit work performed by non-Federal auditors. This policy—combined with the fact that the Single Audit Act of 1984 (http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf), as amended—requires recipients to arrange to have independent audits performed on Federal financial assistance awards that they receive, means that these non-Federal examinations are the principal means of determining a governmental unit's compliance with 2 CFR 225 (OMB Circular A-87) (http://www.law.cornell.edu/cfr/text/2/part-225).

OMB is responsible for issuing implementing policies, procedures, and guidelines under the Act. Applicable OMB guidance for auditors performing audits under the Single Audit Act identifies general and specific requirements against which the auditor is expected to test governmental unit compliance. Several of these requirements relate to policies contained in OMB Circular A-87. Included within the general requirements are the following:

- Allowable costs and cost principles
- Federal financial reports
- Administrative requirements.

Cost reviews for IS development and operations may be conducted by FNS or by other Federal or contracted personnel. 7 CFR 277.18(k) (http://www.ecfr.gov/cgi-bin/text-idx?SID=61958349b5909e9586190b85ab9dd0d2&node=20140102y1.13) of the regulations requires State agencies to provide access to all cost records relating to system development and operations. FNS may use data mining software during these reviews. This will require the State agency to provide FNS staff with project expenditures in an electronic format. **Failure to cooperate with Federal requests for information in support of a review or audit may result in suspension or termination of FNS funding for the system and its operations**.

7.4.1. Selection of Cost Review Items

FNS reserves the right to review specific cost items during the SDLC. Selection of these items will be based on problems disclosed through audits, document reviews, or initial project review. In certain situations, such as when system development has been suspended or discontinued, total program costs incurred to date may require review. Once a system is operational, specific charges to an FNS grant may be reviewed and validated periodically. These reviews may be conducted by Federal or contracted staff. All costs may be reviewed, whether charged by the primary State agency or by other agencies in the State or local government.

The following are items that may be assessed during the cost review process:

- √ Organizational charts showing all personnel and including functional descriptions, covering both State agency and contracted staff
- √ Automated Data Processing (ADP) cost allocation and direct charging plans (Special development plans and existing operational plans, ensure that they are current and approved by relevant Federal agencies.)
- √ Hardware and software inventories by location and user, with the appropriate depreciation, lease, and rental schedules, to ensure correct inventorying, prior approval, and expensing and acquisition methods
- √ Current configuration charts for computer systems and communication networks, to ascertain that they match the approved APD
- √ Listings of current equipment and service agreements and contracts. (Service agreements must be reviewed to ensure that they are up to date and include the signatures of the appropriate officials. Rates for all users must be the same, and any refunds and discounts must be equally shared.)
- √ Year-to-date expense reports by cost center, and expense reports for the most current Federal fiscal year, to ascertain that the reports match the information provided to FNS
- √ Cost recovery and billing system algorithms, justifications, and operating documentation relating to the method of recovering operational costs by the State agency or the central data services center. (Review must ensure that the billing method is not being used to fund equipment and site replacement. If operating balances are being used for equipment replacement, the billing rate must be revised, and overcharges must be accounted for either through an offset to future claims or direct payment to FNS.)
- √ Equipment issuance of PCs and terminals for full-time equivalent staff, excluding training and intake, and ratios of printers to staff
- √ Cost charges for equipment. (Use of State contracts, to determine whether equipment acquisition is being conducted in the most cost-effective manner.)
- √ Contracted staff's hourly and annual wages compared with the ones listed in industry publications.

7.5. BUDGETING

Valid budget estimates are required because of their importance in the evaluation and funding of IS projects. The budget is the source of the financial information needed to make valid decisions concerning cost-benefit analyses and overall cost controls and to determine funding availability. It must reflect the total anticipated project cost, including Federal and State shares. Accurate reporting of IS expenditures is also required to perform reconciliations against budgeted and approved funding levels. All APD-related budgets should be broken down by Federal fiscal year and quarter. The State agency must break out the costs by contributing agency and the percentage calculated as the agency's fair share, using the APD-approved cost allocation plan or the CAM Toolkit (see Section 7.3.4).

Underestimating the budget has been a frequent problem for the States for a variety of reasons. Two such reasons include poor estimates from contractors and/or States that underestimate what is involved in the system and delays in timelines translating into cost overruns. Some of these problems are unforeseeable, such as software license agreements suddenly being revised. However, States need to conduct research to get the most accurate cost estimates. Additional problem areas that often occur with APD budgets include the following:

- Indirect costs not shown
- No staff costs shown
- Charging multiple funding sources for the same staff costs
- Multiyear budget not broken out by quarters
- Budgets including primary contractor costs but failing to include the cost for other contracted services such as project management or Quality Assurance
- States' use of master service agreement contractors (contractors already vetted through the State procurement process to provide services as needed) to supplement State staff with the inclusion of these costs in the budget.

FNS review of budgets is critical, because overall approval of the entire APD is dependent on this information. The first step should always be a recalculation of the data presented. Following that step, the cost allocation methodology used should be reviewed. This review should address questions such as, "Has the State complied with the agreed-upon methodology? Are any unallowable costs shown? Have any normal interest paid costs been included? Are any lease charges for land and buildings shown?" Note FNS will not reimburse for the building or purchase of a facility. FNS will not reimburse interest or other penalties from late payments or other circumstances arising from negligency by the SA.

In the event that a project originally estimated to cost less than the $6 million threshold for SNAP or the $500,000 threshold for WIC encounters changes in prices or scope that increase the costs above the threshold, the State agency must submit an APD to FNS for approval of the entire project, not just that portion that is over the threshold. In such a circumstance, the State agency should work with FNS to ensure that all information requirements of the APD are met prior to submitting the APD for approval. This will assist FNS in reviewing and making an approval determination and also obviate or shorten any project slowdown during the approval process.

7.5.1. Operational Budgets

Operational costs differ from development costs. Operational costs are ongoing costs incurred to support the system and include staff, software, maintenance, license fees, and hardware costs. The budget for operational costs would not normally be included in the project budget in the IAPD. However, if the original contract with the developer also includes a period of operations and maintenance, after the completion of the project, the operational costs should be included in the IAPD for informational purposes.

The State agency must ensure that anticipated operational costs are provided to FNS in the normal State Administrative Expense (SAE) or Nutrition Services & Administration (NSA) budget process. FNS may verify the appropriateness of these types of expenditures during periodic management evaluations apart from project oversight.

7.5.2. Completing the Planning Advanced Planning Document Budget

The Planning APD (PAPD) budget is designed to capture quarterly costs for the entire planning phase of the project, including all anticipated expenditures. Budgets are required to be amended as information that is more current becomes available. Costs may not be claimed at any time if they have not been approved by FNS. A contingent or proposed cost allocation may be used for planning purposes, on the basis of the current cost allocation in use by the State agency. A new cost allocation plan may also be proposed. The allocation for planning costs will normally not be readjusted on the basis of the final approved cost allocation methodology, unless a serious flaw is found in the planning allocation methodology.

In the initial submission with the original PAPD, all data, including the totals line, should reflect projected costs. Additional cost centers can be inserted into the budget, or categories can be clarified, as appropriate to the project. PAPD updates should reflect actual costs to date. The spreadsheet and the totals line will reflect these actual costs, while the original approved total will continue to be shown on the appropriate line for comparison purposes. A final PAPD spreadsheet should be submitted once the project planning phase is completed, and it should reflect actual costs. It is not anticipated that significant hardware or software development costs will be eligible for funding under project planning. However, some hardware and software that support the planning process may be approved. Refer to Figure 7-4 for a Sample PAPD Budget.

Figure 7-36. Sample PAPD Budget

Task/Line Item	FY				FY Total					FY Total	Project Total
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		
State Costs											
State Travel	$3,926	$5,526	$3,035	$5,252	$17,739	$6,852	$0	$0	$0	$6,852	$24,591
Local Travel	$100	$325	$225	$225	$875	$50	$50	$200	$200	$500	$1,375
State Staff Time	$2,596	$3,289	$2,397	$3,108	$11,390	$4,720	$1,284	$1,284	$985	$8,273	$19,663
LA Staff Time	$200	$298	$189	$144	$831	$200	$128	$128	$128	$584	$1,415
Equipment	$0	$0	$0	$0		$6,809	$3,732	$0	$0	$10,541	$10,541
IT Support	$0	$0	$698	$1,290	$1,988	$7,890	$698	$328	$0	$8,916	$10,904
Indirect	$779	$220	$515	$4,389	$5,903	$5,423	$4,708	$4,730	$30	$14,891	$20,794
State Subtotal	$7,601	$9,658	$7,059	$14,408	$38,726	$31,944	$10,600	$6,670	$1,343	$50,557	$89,283
Contractor Costs											
Travel	$0	$0	$21,520	$22,450	$43,970	$10,500	$13,830	$1,500	$0	$25,830	$69,800
Site Survey			$48,480	$47,550	$96,030	$0	$0	$0	$0	$0	$96,030
Develop RFP					$0	$5,800	$10,550	$650	$0	$17,000	$17,000
Develop IAPD					$0	$25,786	$22,654	$2,460	$0	$50,900	$50,900
Contr. Subtotal	$0	$0	$70,000	$70,000	$140,000	$42,086	$47,034	$4,610	$0	$93,730	$233,730
Total	$7,601	$9,658	$77,059	$84,408	$178,726	$74,030	$57,634	$11,280	$1,343	$144,287	$323,013

Once final costs are more accurately known, a final budget, broken down by Federal fiscal year and quarter, must be submitted.

Appendix D provides a sample budget for a multi-year planning budget by Federal fiscal year and quarter.

7.5.3. Completing the Implementation Advance Planning Document Budget

The IAPD budget is designed to capture quarterly costs for the life of the project through full implementation. The life of the project is considered over when the State agency has finished rolling out the system to its last local agency.

The following costs for the IAPD should be included in the budget:

- Activities, goods, and services provided by a contractor
- Activities and services provided by a State's IT Office (not program staff)
- New or additional activities and services performed by the State or local agency staff.

FNS designed the budget to capture categories of costs. While the budget itself rolls up the costs for each category, the categories should reflect all the costs of the category. The budget should capture all the anticipated expenditures for the project. Additional cost centers can be inserted into the budget, or categories can be clarified to be more specific, as appropriate. Figure 7-5 identifies common costs for IS projects.

Figure 7-37. IAPD Budget Categories

Category	Relevant Budget
Personnel/Staff—State and Local	• Personnel • Developmental • Operational
Travel	• Trainers • Trainees • Other
Software	• Leased • Purchased • Maintenance • Developmental
Hardware	• Lease Developmental • Purchase Developmental • Operational • Maintenance
Telecommunications	• One-time Installation • Developmental • Operational • Leased Lines
Site Preparation	• Local—one time • Regional—one time • Central—one time • Operational
Processing Billing	• Developmental • Conversion • Operational

Category	Relevant Budget
Other Costs	• Add any other direct costs not previously addressed

7.5.4. Completing an APDU Budget

Annual APD Updates (APDUs) for all active PAPDs and IAPDs are required for any project in which total FFP costs exceed $6 million for SNAP or in which total project costs exceed $3 million for WIC. The APDU budget format is designed to capture actual costs quarterly throughout the life of the project and to compare them with original cost estimates. This allows both the State agency and FNS to see easily and clearly where costs are changing from the approved estimates, determine where new approvals are needed, and make adjustments, as appropriate, in preparing for remaining project phases. All cost categories should be the same as in the original approved IAPD budget unless they have been clarified to be more specific. The State agency must submit an APDU As-Needed under the following circumstances:

- A significant increase in total costs (>$1 million or 10 percent of the total project cost, whichever is higher, for SNAP and >$100,000 for WIC)
- A significant schedule change (>120 days for SNAP or >90 days for WIC) for major milestones
- A significant change in procurement approach and/or scope of procurement activities beyond that approved in the APD, such as:
  - A change in procurement methodology
  - A reduction or increase in the procurement activities that were described in the APD
  - A change in an acquisition (e.g., changing from a State blanket purchase agreement to issuing a request for proposal (RFP))
- A significant change in an approved system concept or scope of the project, such as a proposal of a different system alternative, a change in platform, a change in the project plan, or a change in the cost-benefit projection
- A change to the approved cost allocation methodology.

Revised Project Cost Estimate

A Revised Project Cost Estimate should be made up of actual costs to date at the time of the report, plus the estimates for remaining quarters. If the estimates for the remaining future of the project need to change to reflect new expected realities in upcoming quarters, those changes should be reflected. They must be accompanied by narrative notes explaining the nature and extent of changes to future estimates.

As the project progresses, the State agency is likely to determine that some original cost estimates were inaccurate and should seek approval for some new estimates before the expenditures are made. Estimated costs to date should reflect the estimates that were most recently approved. These costs should also include estimates (by cost center) for which approval is being sought in the narrative. This is different from actual costs to date, in that changes in estimates to date were projected into the future. Actuals-to-date reflect the past costs.

Actual Costs to Date

Actual costs to date should reflect current actual costs for each cost category listed. Un-liquidated obligations should be included in actual costs. Significant differences between estimated and actual costs should be explained in narrative. Actual costs to date will be compared with the most recently approved estimates, not with the originally approved estimates. Although FNS does want to keep original cost estimates in mind, changes throughout the project are expected. If new cost centers need to be added that were not in the originally approved IAPD estimates, they should be explained in the narrative.

Form FNS-366A—Program and Budget Summary

State agencies must include the budget projection for ADP development and operational costs on Form FNS-366A. Form FNS-366A is submitted annually to the FNS RO by August 15 for the upcoming Federal fiscal year and is revised as needed. On an attachment to Form FNS-366A, provide for each project the project name, project ceiling, and amount budgeted. All costs must be shown for all services, including those provided by other agencies of the State that provide IT services to the grantee.

Only costs that have received the necessary approvals through the budget process may be claimed for Federal reimbursement on the Form SF-425 (http://www.whitehouse.gov/sites/default/files/omb/assets/grants_forms/SF-425.pdf).

The approved APD budget, Form FNS-366A, and Form SF-269/SF-425 data must match, and any variances must be reconciled periodically.

7.6. EXPENDITURE REPORTING

Program grantees should report IS-related expenditures, consistent with program requirements, on the Form SF-425, Federal Financial Report (http://www.whitehouse.gov/sites/default/files/omb/assets/grants_forms/SF-425.pdf). Grantees are not required to report on the status of funds by object class category of expenditure (e.g., personnel, travel, and equipment).

7.6.1. SNAP

For SNAP the costs for IS development and operations are reported separately as outlined in Figure 7-6.

Figure 7-38. Cost Categories for the SNAP

Cost Category	FNS-366A Row/Section (Ongoing)	SF-425/FNS-778A Column (beginning FY 2012)
ADP **operational** costs— systems M&O costs claimed at the 50% level	07	07
ADP **development** costs— system development costs claimed at the 50% level	21	06

For SNAP, the Form SF-425 is submitted quarterly for the fiscal year. State agencies should submit an attachment to the Form SF-425 on a quarterly basis, listing (by open APD project) the actual total expenditures compared with the approved budget, and the actual Federal share of expenditures compared with the approved Federal share of the budget.

7.6.2. WIC

The Form FNS-798 report provides all WIC administrative costs but combines the developmental and operational costs into one figure. APD costs are reported as NSA costs on the Form FNS-798/798A (regular NSA and/or operational adjustment (OA) funds) and on the Form SF-425 (https://www.whitehouse.gov/sites/default/files/omb/assets/grants_forms/SF-425.pdf) (State Agency Model (SAM) or infrastructure grant funds). WIC developmental costs must be reported in the APDU, and WIC operating costs must be reported in the State Agency MIS Annual Cost Survey. In addition, State agencies should submit an attachment to the Form FNS-798 listing, by open APD project, the actual total expenditures compared with the approved budget, and the actual Federal share of expenditures compared with the approved Federal share of the budget.

7.6.3. State Agency Management Information System Annual Cost Survey

The cost survey is broken down into new management information system (MIS) acquisition costs, ongoing operations and maintenance costs, and major commercial hardware and software upgrade costs. It provides the total amount of funds spent on MIS during a fiscal year and a breakdown of those expenses by line item. Survey data should be provided to FNS ROs and headquarters each fiscal year to enable FNS compliance with Office of Inspector General audit requirements. Since only preliminary expenditures are available at that time, a revised cost survey is needed at closeout to reflect final fiscal year MIS expenses incurred by the WIC Program. The preliminary report should reflect both estimated expenditures, as well as actual expenditures, where actual expenditure data is available. The final report shall be provided to FNS RO and headquarters by March 1 and March 15, respectively, for the prior fiscal year. All MIS costs incurred and paid by WIC should be reported in the cost survey, regardless of funding source.

7.6.4. Annual APDU Expenditure Reporting

The annual APDU will include a detailed accounting of all actual project development expenditures through the last full Federal fiscal quarter and projected costs for the remainder of the project. All expenditures should be reported by cost category to correspond to the budget of the approved APD. All expenditures should be reported by Federal fiscal quarter and cost category expressed as follows:

- √ Total expenditures
- √ Costs allocated to each Federal and State program
- √ Costs claimed from each Federal program
- √ All costs claimed by Federal fiscal quarter subsequent to the last quarter
- √ Source of funds that reconciles with expenditures.

The quarterly expenditure data reported on the annual APDU will be consistent with the data reported to FNS on Form SF-425 (http://www.whitehouse.gov/sites/default/files/omb/assets/grants_forms/SF-425.pdf) (beginning FY 2012), and any other expenditure reports used for FNS programs.

7.6.5. Regional Office Expenditure Review

FNS RO will compare quarterly expenditures reported in the annual APD with reported expenditures for IS development from the Form SF-425 (http://www.whitehouse.gov/sites/default/files/omb/assets/grants_forms/SF-425.pdf) (beginning FY 2012), or other expenditure reports. Any differences will be examined and will need to be reconciled. There should be no significant differences between expenditures reported on the Form SF-425 and those reported on the annual APDU. Reconciled expenditures should be compared with the approved APD budget to determine if budget revisions are required. In addition, the RO should examine reported expenditures against approved APD budgets to ensure that the State is complying with the requirement to submit an APDU As-Needed with revised budget projections. The FNS RO should notify the designated State Systems Office representative of any inconsistencies or inaccuracies in project budgets that cannot be reconciled.

7.7. SUMMARY

All staff responsible for administering and overseeing FNS programs (State and Federal staff) should be aware of the program-specific IS requirements, especially as they relate to prior-approval thresholds, funding sources, and reimbursement rates. For additional information on financial management issues related to the APD process, consult FNS or any of the following resources:

FNS Grants Management Division (FNS HQ) (http://origin.www.fns.usda.gov/fm/grants.htm)

HHS Office of Grants and Acquisition Management (http://www.hhs.gov/grants/index.html)

HHS FM, DCA (https://rates.psc.gov/)

CAM Toolkit (see Section 7.3.4)

2 CFR 225 (OMB Circular A-87) (http://www.whitehouse.gov/sites/default/files/omb/fedreg/2005/083105_a87.pdf). In addition to A–87, HHS, in coordination with OMB, developed an implementation guide for A–87 entitled, “Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government: A Guide for State, Local and Indian Tribal Governments” (ASMB C–10) (http://www.hhs.gov/asfr/ogapa/grantinformation/ogamat5.html). The ASMB C–10 is intended to assist governmental units in applying the principles and standards contained in A–87 and to provide clarification and procedural guidance to implement the provisions of A–87. It will also provide the reader with answers to many of the issues concerning cost policy not specifically addressed in A–87 itself.